

**Texas
Independent
Producers and
Royalty Owners
Association**

Air Emissions Sources Requested by EPA

Exploration & Production companies operating in EPA Region 6 (Texas, New Mexico, Oklahoma, Louisiana and Arkansas) are being asked to provide additional details on current and future emission sources from their operations. The new administrator, Dr. Al Armendariz, met with TIPRO and other related oil and gas associations in May. At that time he asked association representatives to contact their members and determine if they could work collaboratively to provide an inventory of equipment and emissions that may impact air quality in

these states. Industry is cooperating and responding in a coordinated effort with a letter informing Armendariz that the best vehicle for providing the emissions inventory data the respective state regulatory agencies and the existing framework of the State Implementation Program (SIP). This message will be communicated to the EPA promptly in a letter signed by most of the associations in -EPA Region 6. For more background on the issue, please go to www.tipro.org under News in the TIPRO Target December 21, 2009 issue article: "Benzene in the Barnett Shale: Tips for Members". TIPRO will continue to keep members up to date on this issue.

Mark Your Calendars for TIPRO's Summer Conference Aug. 12-14 in San Antonio at Hyatt Hill Country Resort

State political, tax and environmental issues will dominate the agenda at TIPRO's Annual Summer Conference August 12-14 (Thursday – Saturday) in San Antonio at the Hyatt Hill Country Resort. But there also will be plenty of time for networking with colleagues and fun with family and friends at this great end-of-summer venue. Members and guests are encouraged to mark their calendars for this annual gathering.

Popular Washington DC-based political analyst Charlie Cook will provide commentary on the mid-term elections and other federal issues. Cook has the inside scoop on the players and issues and is equally scathing for both sides of the aisle. Invitations have been sent to Senate Finance Chair Steve

Ogden and House Ways & Means Chair Rep. Oliveira so we can hear about preparation by their Committees to face the challenges during the upcoming Legislative Session. Issues such as the election cycle, redistricting, the Sunset Task Force, environmental concerns, regulation and more will be addressed at the State Issues Update. Tax and Budget issues will be addressed by Dale Craymer of the TTARA (Texas Taxpayers and Research Association) for an in-depth look at Texas tax deficit. As well, Senior Economist for Wells Fargo Eugenio Aleman will discuss financial topics of interest to independents. Association Committee meetings will round out the program, along with plenty of networking opportunities for members and guests.



Transitions Build on Strong Foundation



Justin Furnace

In this time of transitions at TIPRO, I'm pleased to serve as the Association's Executive Vice President. I arrive with experience on the business, legal and regulatory sides of the oil and gas industry. As I get a lay of the land, we are formulating the goals our new team at TIPRO wants to achieve. I can tell you it will start with providing the best representation at the Capitol of any Association in Austin. It continues with augmenting member services, expanding information products, increasing our advocacy efforts, and much more. I want to see our members use TIPRO as a comprehensive resource on a daily basis. We want to be your eyes and ears on the ground in Austin and across the state.

As your Association we reflect your image personally and professionally. The challenges our industry faces make us stronger. As a matter of fact in the face of these challenges both in Texas and in Washington DC, TIPRO is primed for new growth. With Rich Varela at the helm of our new focus on Development, we're going to make this personal. Face to face, hand-shake to hand-shake we're going to recruit, retain and increase our membership in order to better represent the industry on every level.

Members, have you ever visited your TIPRO headquarters in Austin? If you haven't I invite you to stop by. We're situated one block over from the venerable Capitol building. We are here for you and our house is your house. TIPRO's leaders and staff, both past and current, are men and women who are not only the legacy of TIPRO but the true legends of the oil and gas industry in Texas. To this day independent producers remain at the heart of this industry.

That is why I truly feel I have the best job in Texas. I get to represent the life blood of the Texas economy in Austin.

I would especially like to thank the leaders who came before me. My appreciation goes to Adam Haynes, Donna Warndof, Rich Varela, Steve Castle and Tad Mayfield, among many others who have all spent valuable time educating me to the essentials of what and who TIPRO is. We may be experiencing a changing of the guard, but our foundation remains strong thanks to you, our stalwart members.

Sincerely,

Justin Furnace
Executive Vice President

Calendar of Events

JUNE 9, 2010

HOUSTON— IPAA/TIPRO
Leaders in Industry
Luncheon, 11:30 a.m.
Houston Petroleum Club.
For info call
512.477.4452

JULY 14, 2010

HOUSTON— IPAA/TIPRO
Leaders in Industry
Luncheon, 11:30 a.m.
Houston Petroleum Club.
For info call
512.477.4452

AUGUST 11, 2010

HOUSTON— IPAA/TIPRO
Leaders in Industry
Luncheon, 11:30 a.m.
Houston Petroleum Club.
For info call
512.477.4452

AUGUST 12-14, 2010

SAN ANTONIO— TIPRO's
Summer Conference and
Golf Tournament at the
Hyatt Hill Country Resort.
For info call
512.477.4452

Unitization Issue – Coming to Texas?

Unitization has been debated in Texas for many years. As a matter of fact, “voluntary unitization” has existed and been utilized extensively in Texas since the adoption of the Voluntary Unitization Act of 1949. Unitization is often successfully utilized in enhanced oil recovery projects in an attempt to most efficiently recover oil reserves that would not otherwise have been produced.

The contentious part of the debate is with “compulsory” or “forced” unitization. Under this scenario, mineral interests who may not want to join a unit can be forced to join if certain criteria are met by those who want to create the unit. Texas producers have been very divided on the benefits and consequences of compulsory unitization. Those who argue in favor say the process will facilitate the recovery of significant amounts of additional oil that cannot be recovered without it. Those who oppose say that forcing an interest or entity to join a unit amounts to a “taking” and the forced party is often not compensated fairly for their interest.

In a recent stakeholder meeting, Texas Rep. Myra Crowover simply introduced the unitization issue as something that may be addressed in the upcoming session and wanted to hear comments from all those present. Due to the CO₂ storage and sequestration legislation that was passed last session, there now exists a new reason for the use of “compulsory unitization,” that being the ability to unitize for the purpose of storing and sequestering CO₂. The discussion that followed reiterated many of the same points that have surrounded this matter for a long time. It was apparent that the stakeholders remain divided and the discussions and debates will make for interesting legislative hearings in the forthcoming session. As always, TIPRO will monitor the issue and keep its members apprised of any information that pertains to them. For more details, please contact TIPRO offices at 512.477.4452.

Conference from page 1

The Summer Conference will be the first official meeting to be led by TIPRO’s newly-elected Chairman of the Board Steve Castle of Cowboys Resources. For many members, it will also be the first opportunity to meet TIPRO’s new staff leadership President Justin Furnace; Senior Vice President of Development Rich Varela and Director of Public Affairs Teddy Carter. Each will add commentary on their new initiatives as well as a foundation for what members can anticipate in the Texas Legislative Session that begins in January 2011.

Kicking off the meeting will be a golf tournament at the award-winning 27-hole Arthur Hills champion golf course. TIPRO’s new Chairman Steve Castle will close the event Saturday night with the President’s Dinner and a lucky casino night. (All prizes in the casino night will be gift cards – not cash.) Attendees are encouraged to bring their families for summer fun at the Resort which includes a lazy river tubing ride and other family amenities.

A more specific Agenda outline is forthcoming. TIPRO welcomes sponsorship support—please contact Rich Varela for details. Registration details will be posted to TIPRO’s website soon. Please call the Hyatt Hill Country at 800-233-1234 for room reservations at the TIPRO rate of \$179 for a standard room.

TIPRO Members:

If you see TIPRO news and information in your local publications, or if you would like to share news with us, would you please send our offices a copy of the clip? We’re really getting the word out about our industry’s news and information and would like your help to be our eyes and ears. Please mail clips to Jen Noble at TIPRO headquarters or email jnoble@tipro.org. Thank you.

WAYS AND MEANS CONTINUES EXEMPTIONS STUDY

May 27, 2010 Contributed by Dale Craymer, President of TTARA



This Wednesday, the House Ways and Means Committee continued its review of state tax exemptions, focusing on franchise taxes and severance taxes—in particular the state's lack of a severance tax on coal/lignite.

Chairman Oliveira opened the meeting by outlining the components of the budget gap the legislature faces—a figure he placed at \$18 billion:

Additional Needs (from the remainder of 2010 through 2013)

Medicaid Overruns (\$2.5 billion)

Public Education (\$2.8)

Higher Education (\$0.6)

ERS/TRS (\$0.8)

Corrections (\$0.2)

Loss of One Time Revenues (\$11.9)

Offsets

Budget Cuts + \$1.2 billion

Additional Federal Money + \$1.0

PSF + \$2.4

Plus: Revenue shortfall in the current budget (\$4.5 billion)

The committee also spent some time on the economic development tax refund—under which companies may claim a credit against their sales or franchise taxes for school property taxes paid. This program is currently oversubscribed, and taxpayers receive a prorated share of a \$10 million pool. Dick Lavine of the Center for Public Policy Priorities erroneously testified that the 1995-passed program was not designed to be permanent and that the program served no economic development purpose. Dale Craymer from TTARA corrected these assertions in his testimony.

Among the big dollar franchise exemptions that drew the committee's interest were those for mutual fund companies (who would otherwise be taxed on their accounts and transactions) and insurance companies (who are instead subject to a higher premiums tax). The committee also extensively discussed deductions for purchases of solar energy devices (which the Comptroller also applies to wind projects, though they are not mentioned in statute).

There was also discussion of very familiar franchise tax issues—lack of deductions for certain business costs, the difference in tax rates for renters versus retailers, tax on gains from the sale of property, etc. There was no testimony offered on the small business exemption.

So Where is All This Going?

The committee is expected to wrap up its public work and then leave staff to pull together the final report. It is not expected to make specific recommendations as to whether any exemptions or deductions should be eliminated. Instead the committee will likely issue a report simply summarizing the pros and cons of the various exemptions. As Chairman Oliveira noted jokingly: no one is being targeted now, but “you’ll probably be targeted later.” The committee will probably draw from the information gathered in this effort should the next legislature deem it necessary to consider a tax increase. That is not a foregone conclusion—even with a potential 20 percent budget gap—given the current opposition of the leadership. Further spending cuts lie ahead; the state still has roughly \$8 to \$10 billion it can count on in the Rainy Day Fund; and, a number of time-honored accounting tricks are still available.

Still, the budget challenge is great, and some type of tax increase is likely to be called for. The only question is whether that call will be from a minority of legislators, or from a majority of legislators. For now, it is a minority. BUT, if more and more legislators begin to believe that repealing an exemption is not a tax increase, the prospects of a tax bill will be greater.

Limited State Bond Authority Left

The major news from Wednesday's meeting of the House Select Committee on Fiscal Stability, chaired by Rep. John Otto, was that the state has very little bond authority left. The committee deliberations focused primarily on an examination of state debt, including the amounts that are outstanding, authorized but not issued and capable of authorization without exceeding the constitutional debt limit. New state debt cannot be authorized if it would cause the amount of annual debt service to exceed 5% of the prior three-year average of unrestricted general revenue. Due to a combination of declining revenue and large amounts of recently authorized debt, the constitutional cap is close at hand – closer than ever before. Consequently, the current estimate is that a maximum of \$3.8 billion of new general obligation debt could be issued without busting the cap. Chairman Otto cautioned this meant issuing more bonds to help solve next session's anticipated budget shortfall would be a long shot at best. The Texas Bond Review Board presentation to the committee can be found [here](#) and the Legislative Budget Board presentation is available [here](#). To complete the committee's work, two more meetings, with agendas yet to be determined, are planned for June 29 and August 16.



U.S. Energy Information Administration Independent Statistics and Analysis

Highlights May 2010

- EIA projects U.S. real gross domestic product (GDP) will grow by 3.0 percent and world real oil-consumption-weighted GDP will increase by 3.6 percent in 2010, both of which are 0.2 percent higher than in the previous Outlook. The 2011 forecast for real GDP growth is at 2.9 percent and 3.7 percent for the United States and the world, respectively.
- The more optimistic economic growth forecasts lead to an increase of about \$2 per barrel in EIA's projections for West Texas Intermediate (WTI) crude oil spot prices compared with the prior Outlook. EIA expects WTI prices to average about \$84 per barrel during the second half of this year, rising to \$87 by the end of next year.
- To date, energy production, shipments, and prices have not been significantly affected by the oil spill following the April 20 explosion aboard the Deepwater Horizon drilling rig and its subsequent loss in the Gulf of Mexico, 50 miles off the Louisiana coast. EIA and other offices in the Department of Energy are closely monitoring the situation and its effects on the energy sector.
- EIA forecasts that regular-grade motor gasoline retail prices will average \$2.94 per gallon during this summer's driving season (the period between April 1 and September 30), up from \$2.44 per gallon last summer. The summer gasoline price forecast is up very slightly (\$0.02) from last month.
- EIA expects the Henry Hub natural gas spot price to average \$4.48 per million Btu (MMBtu) this year (up \$0.04 per MMBtu from last month's forecast), a \$0.53-per-MMBtu increase over the 2009 average. EIA expects the Henry Hub spot price to average \$5.34 per MMBtu in 2011.
- The annual average residential electricity price changes only moderately over the forecast period, averaging 11.6 cents per kilowatt-hour (kWh) in 2010, up from 11.5 cents per kWh in 2009, and then rising to 11.9 cents per kWh in 2011.
- Estimated carbon dioxide (CO₂) emissions from fossil fuels, which declined by 7.0 percent in 2009, are expected to increase by 0.6 percent and 1.6 percent in 2010 and 2011, respectively, as economic growth spurs higher energy consumption.

AMERICA NEEDS CLEAN ENERGY. NATURAL GAS NEEDS CHAMPIONS LIKE YOU.



AMERICA'S CHAMPION OF NATURAL GAS™

Natural gas powers vehicles more affordably than gasoline and diesel – with a third less carbon emissions – making it ideal for mass transit, commercial fleets, refuse vehicles, heavy-duty trucks, and more. It can cut our nation's CO₂ emissions from power generation in half as well. Not in decades, but starting today. The fact is that most alternative energy sources need time and money. Natural gas just needs you. Help us make American natural gas a central part of the country's plans for our environment and energy security. Contact your elected representatives. Be heard. Natural gas is something we should all champion. chk.com



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Letter to the Editor

Contributed by TIPRO Member Bruce Blake with BWB Oil and Gas Properties

Re.: Deepwater Horizon and the April 22, 2010 Disaster in the Gulf

Dear Sirs,

I started my career in the oil and gas industry as a roughneck at the age of 20, working in the gas fields of Utah. With 34 years of diversified oil and gas exploration and production experience as a consultant and investor I am considered an expert in the domestic energy field. However, I have always avoided offshore and international investments in exploration and production because of the significant financial and political risks. I have never attended Houston's annual Offshore Technology Conference and so, I began evaluating the recent blow out in the Gulf of Mexico as a well informed outsider. To gain a better understanding, I researched web sites dedicated to the disaster, newspapers, oil and gas publications and interviewed my industry peers – this research has truly opened my eyes.

The technology utilized by Trans Ocean and British Petroleum serves to rival all the technological advances made by NASA in going to the moon or building the space station. Working at a water depth of 5,000 feet is difficult with extreme temperatures, water pressure often exceeding 2,500 PSI and bottom hole pressures exceeding 10,000 PSI. The Oil and Gas industry has decades of experience in shallow water exploration and production but has ventured into the deep Gulf only in the last few years. Considering the infancy of the industry push into the outer continental shelf, everything is an experiment. Literally the technology, systems and procedures, are being invented out of necessity on a daily basis. Exploration and production has a long history of risks and each mistake is historically considered a teaching and learning opportunity. In the deep offshore, each endeavor is new, untested and logically a high risk endeavor.

One has to believe that the advances in robotics, global positioning, metallurgy, communications and the endless other frontier application being developed by deep sea explorers will find their way into other completely unrelated industrial applications. This kind of unyielding research is and will be the foundation of America's industrial future for the generations that follow. As I watch the expenses associated with this disaster grow my personal decision to remain onshore has been reinforced. However, one must congratulate the major oil and gas companies world wide that have taken on the challenge. Truly, Trans Ocean and British Petroleum, their partners and investors have dared go where no man has gone before.

As Americans, we must recognize that there are risks associated with our chosen lifestyle and economy. In using hydrocarbons the risks include exploration, production, refining, transportation and finally personal use. We also must recognize and accept that into the distant future there is no economic alternative to hydrocarbon use.

The BP blowout, although larger than the Valdez accident, has so far been dwarfed by previous large spills in history. The largest spill, 11.4 million barrels, was intentionally made in 1991 at the end of the first Gulf War as Iraqi forces opened valves of oil wells and pipelines as they retreated from Kuwait. The oil slick reached a maximum size of 101 miles by 42 miles and was five inches thick. Yet, the earth healed. Hopefully the environmental impact from the current crises will be minimal. The loss of life and disruption of the lives of other individuals with direct economic ties to the Gulf of Mexico has been unprecedented and all of us within America's Petroleum Industry are burdened by the sorrow.

Unlike NASA's exploration of space, the petroleum industry's exploration activities are funded by profits. It is a concern that this blow out in the Gulf may be the result of the desire of a person or committee to save a few million dollars. Is it a lesson that will be remembered by all within the Oil and Gas Industry? The tragedy may prove that deep outer Continental Shelf exploration is uneconomic as a result of the inherent risks; such a decision would be a blow to the US economy and future generations of Americans. Oil and gas exploration from the Gulf of Mexico like that from Alaska, the East and West Coast and the Continental United States are all vital for America's long term economic vitality. My hope is that the well will be brought under control, the field will be developed and the production and revenue from that field will provide energy and jobs for generations to come. We need, now more than ever, energy for a strong America.

Just as Apollo 13 was NASA's finest hour I am encouraged and optimistic that this will be Trans Ocean's and British Petroleum's finest hour. So I congratulate, in advance, the thousands of dedicated employees, of all the companies supporting the effort to bring this tragedy to conclusion. You are truly America's finest and I take this opportunity to encourage you to keep up the good work. I am confident that you shall finish well!

Register Today

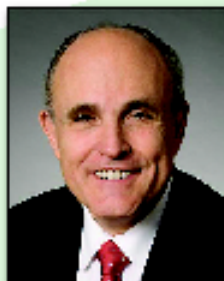
Oil and Gas Investor 3rd Annual

energycapital

WEEK

JUNE 14 & 15, 2010

THE OMNI HOUSTON HOTEL ■ HOUSTON, TEXAS



Keynote Speaker:

Rudolph W. Giuliani
Partner
Bracewell & Giuliani LLP

Former two-term mayor of the city of New York, former Presidential candidate, and a partner at Bracewell & Giuliani LLP since 2005, Giuliani's work in law enforcement strategies became the model for cities around the world. In recognition of his leadership following the September 11 terrorist attacks, *Time* magazine named Giuliani its 2001 "Person of the Year." He was knighted by Queen Elizabeth II and was presented the Ronald Reagan Presidential Freedom Award by former First Lady Nancy Reagan.

The Conference

Hear from leading finance experts and industry executives on capital raising and investment trends

E&P Startup Workshop

Learn the fundamentals on starting your own company

CFO Workshop

Discuss key issues and trends facing financial officers

Investor Workshop

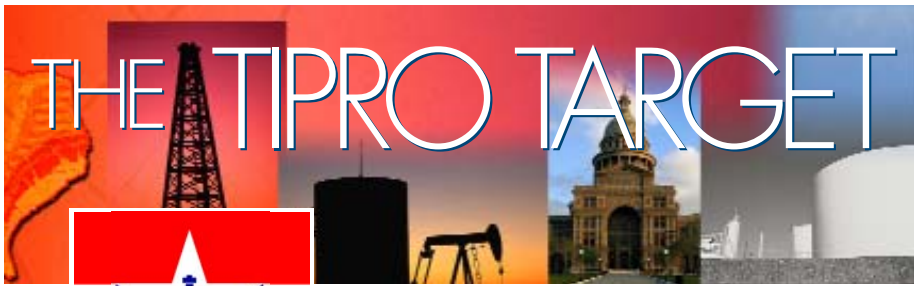
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Presentation of the 2009 Oil and Gas Investor Excellence Award Winners



Registration is now open at
www.EnergyCapitalWeek.com



THE TIPRO TARGET



Texas Independent Producers and Royalty Owners Association

TIPRO represents more than 2,000 independent producers and royalty owners. Our members include small family-owned companies, the largest publicly traded independents and large and small mineral estates and trusts.

www.tipro.org

www.EnergyInDepth.org

TIPRO — PRODUCING TEXAS' ENERGY for AMERICA

919 Congress Ave., Suite 1000, Austin, Texas 78701, Phone: 512.477.4452, Fax: 512.476.8070

THE WALL STREET JOURNAL.

With Gulf Disaster, Maybe Time To Look Onshore

Wall Street Journal

June 2, 2010

By Isabel Ordenez

Investors are turning their attention to gas reserves onshore in the US as new regulatory risks and uncertainty following the massive oil spill in the Gulf of Mexico plague offshore assets.

Credit Suisse analyst Jon Wolff said in a note to clients that the oil spill could be a boon for domestic shale gas as the U.S. looks to reduce its dependence on foreign oil while easing the burden on the inherently higher risk of the deepwater of the Gulf. "Domestic shale gas should emerge as a key solution to bolster energy security," Wolff says. "Natural gas also offers a cleaner, lower-risk solution."

SAVE THE DATE!

AUGUST 12-14, 2010

TIPRO's Summer Conference & Golf Tournament
San Antonio Hyatt Hill Country Resort

